ON SOCIETY AS OBJECT OF THEORETICAL STUDIES AND THE CURRENT ECONOMIC THEORY CRISIS

It is not a secret that studying the society is a process of a very specific nature. Social sciences are often treated as “soft” in comparison with “solid” natural sciences. These characteristics must reflect the fact that precise cause-and-effect relationships are less important in social sciences that the intuitive description of the processes taking place, their general qualitative assessment with application of various criteria that may be interpreted in a number of ways.

The economic theory stands apart from other disciplines in this regard. The core of this theory centers around the topic of finding the best options for optimizing the use of limited resources, which predetermines the need for an extensive application of various mathematical tools. The emphasis on ongoing improvement of these tools, which has been constantly reinforced in mainstream economics throughout the 20th century, has borne fruit: many scholars of natural sciences have started viewing scholars in theoretical economics as colleagues, and their research as based on “authentically scientific methods.”

But then there is a problem, and it is that the science is said to be in crisis right now, and the voices saying this are heard louder and louder. To understand the essence of why things are that way, we need to look at what the “canon” economic theory says.

Since the times of Since the days of J. M. Keynes, the economic theory has been subdivided into micro- and macroeconomics, the two parts that fit badly together, as I expect to show you.

The modern microeconomic theory is represented by a set of independent models (models of consumer choice, firm models, sectoral and general equilibrium models, etc.), which are comprised of hypotheses (axioms), deductive reasoning (in particular, mathematical transformations), and specific conclusions. Moreover, the conclusions made on the basis of each such model take forms that makes it possible to verify their compliance with the real state of affairs in economy. Compliance with this last requirement, according to representatives of mainstream eco-

nomics helps turn this area of inquiry into a genuine empirical science, thereby bringing it closer to the standards of corresponding natural science disciplines.

One of the advantages of this approach lies in that it allows us to understand the nature of various functional dependencies that appear "on the surface" of economic life. But it also has two considerable shortcomings: a purely methodological one, and one related to content.

The former establishes an inconvenient requirement for the researcher: in the process of formulating any of the aforementioned models, it becomes necessary to incorporate into them the categories that had not been defined previously. For instance, in the consumer choice model such notions are market prices of products and consumer income, and in the model of a firm – prices, costs and interest rates. The problem with content here is that the results of the study center around the conclusions that relate to the economic system with strictly defined parameters characteristic for this model, first of all, perfect market economy. This in turn means that the modern microeconomic theory due to the peculiar features of its composition is characterized by its institutional static character.

It might seem that micro- and macroeconomics have simply split the field of economic research: while microeconomics deals only with relationships of separate economic entities (individual or group), macroeconomics deals with the functioning of economy as a whole. It appears to be not exactly the case. The problem is that these two sections of the present-day economic theory are based on different methodological foundations, and therefore represent two different kinds of sciences[1].

The microeconomic theory excludes interpersonal comparisons of utility, and therefore considers as summation of individual incomes meaningless in the process of characterizing the welfare of the group. Meanwhile, in macroeconomics the gross domestic product (income) is seen as a key indicator of economic development. The general level of prices as a macroeconomic indicator is also meaningless from the point of view of microeconomics. Microeconomics considers only

1 In 1967 K. Arrow defined the gap between micro- and macroeconomics as a "major scandal" (Arrow, K.J. "Samuelson Collected". //Journal of Political Economy. 1967, # 75. pp. 730-737

the price vector, and this has to do with the fact that their median level cannot be categorically defined: it depends on whether the structure of issue of a certain period is taken as a basic value. Similarly, from the point of view of microeconomics, there are no reasons to include into the analysis the production function of economy as a whole, with a multitude of production functions, each of which characterizes the totality of technically effective methodologies in various concrete spheres of activity. Meanwhile, it is this aggregated production function that lies in the foundation of contemporary economic growth theories.

The main peculiarity of classical macroeconomics likes in the fact that it as if flattens a complex vector reality into a simple scale representation. One should not hope that such microeconomic indicators could be considered within the realm of macroeconomics.[2] Since the problem of economic growth remains one of the central problems of macroeconomics, the methodological incompatibility of two subsections of the current theory will remain in place. If the problem of economic growth based on the dynamics of a single aggregated indicator is replaced with the problem of economic development microeconomics in its present form will simply disappear.

Some of the most obvious manifestations of a crisis in present-day economics are, one the one hand, its obvious failure to forecast important economic events, and, on the other, inefficiency of many recommendations offered on its behalf – time and time again. One of the most evident examples of the former was the grandiose financial and economic crisis of 2007-2009, which happened, ironically, after "mainstream" scholars were finally convinced they knew how to solve the problem of economic depressions.[3] The examples of the latter are more than multiple. Let me mention just the so-called Washington Consensus, universally recognized as ineffective, which has been forced upon the post-socialist countries.

The dissatisfaction with the answers that the mainstream economics gives to challenges of the world around us, has quickly led to the appearance of the so-

[2] On its results see, e.g. Chapter 6 of the famous textbook: D. Rohmer. Higher Macroeconomics: A Textbook. Published by Higher School of Economics. Moscow, 2014

[3] See Lucas, R. Macroeconomic Priorities. //American Economic Review, 2003, #93 (1). pp. 1-14

called heterodoxical approaches to analyses of economic problems. Their proponents doubt the justifiability of the very effort to build the economic theory on the image and likeness of theoretical natural sciences, namely, on the axioms, with the support of logical conclusions, with broad application of mathematical techniques.[4] Therefore, the simplicity of such presuppositions (axioms) regarding peculiar nature of the human behavior on which economics as a science rests, has become the main object of criticism. Critical comments often regard the theoretical conceptions used by the current modern economic theory to characterize individual behavior and social goal-setting models.[5] To this end, the attention is brought to the fact that the society consists of cognizant agents with own interests, whose understandings of reality may have a direct influence on it.[6] One of the results of this predicament is the variability of the economic environment which leads to any models claiming completeness becoming quickly outdated. Finally, it underscores fallibility of ignoring non-economic factors behind economic development, cultural and political factors among them.

We cannot but accept the just criticism of many sides of "neoclassics" by representatives of heterodoxy in economic sciences. At the same time we need to understand that in its extreme form this approach inevitably leads to depriving so-

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[4] Doubts of this sort had been expressed before as well. A. Pigou, famous British economist of the first half of the 20th century conceded the possibility of existence of "pure economic theory," but was quite ironic about the whole thing. He wrote that "...pure economic theory must study balances, and distortions of these balances among groups whose activity is called for by an indefinite variety of factors." In addition to multiple other subdivisions, these may include the political economy of Adam Smith, where he holds in high regard the motives ascribed to the economic – or normal – man, and the Non-Smith political economy that corresponds to Lobachevsky's geometry, which relies on hard work and hatred for gains." But he was undoubtedly in favor of the realistic economic science. "The realistic economy takes the opposite stand to this pure science; it is interested mostly on the world as we experience it, and in no way does it extend to studying the commercial dealings of communities of angels." (Pigou, Arthur C. The Economics of Welfare. Macmillan and Co. London 1932, Fourth edition, PP. 5-6)

[5] For instance, G. Kolodko, author of the concept of new pragmatism considers the following starting points of a standard theory too simplistic: the paradigm of maximizing wealth, the belief in rational behavior of economic agents, and their faith in that the market mechanism will guarantee effective management of economy(Kolodko, G. W. Truth, Errors, and Lies. Politics and Economics in a Volatile World. Columbia University Press. New York, 2011, P. 72). He also criticizes the unidimensional approach that modern macroeconomics takes in discussing the problem of economic progress and identification of the same with the growth of GDP (Kolodko, G. W. Whither the World: The Political Economy of the Future. Palgrave Macmillan, 2014, P. 33).

[6] "... The conclusions drawn from economic theories become fairly quickly available to masses of economic agents and hence influence the formation of expectations. As soon as a researcher learns something about the laws of functioning of the stock market, agents immediately study these laws, and their knowledge of such laws influences their behavior. As a result the discovered laws fail to be maintained in practice." (Polterovich, V. The Emergence of the General Social Analysis. In: "Great Economist of the Present Day: An Encyclopedia" Moscow, 2013, p. 178).

cial sciences overall of the right of existence, economic theory included in the bunch. In conditions when the possibility of scientific generalizations is rejected, only the general social analysis remains for solving practical problems. The latter is actually considered not as science but as an interdisciplinary tool that could be used to study particulars, the so-called case studies.[7]

Naturally, one of the most peculiar features of the society as an object of study lies in that conscious individuals that constitute the society interact within its structure and behave in ways that meet their own interests. Public (and economic) institutions serve as products of their activities. However, the conclusion that no stable regularities can be formed within such economic systems, and that such regularities cannot be studied in science, are not convincing at all.

The contemporary economic system is known to be fairly complex, permeated at every level with a multitude of interrelations between economic agents who act – to a large extent – independently from one another. The more significant is the fact that despite this the market economy does not fall apart, instead showing the ability to provide a more or less orderly development. This event is enough to suggest that there exist some objective forces that guide the energies of independent participants of economic activities into some constructive course. We can assume that the existence of stable regularities in the economic sphere has something to do with the fact that different people are capable of sharing the same aspirations, and implementation of those into practice faces similar groups of limitations. Whatever we may think about it, the general economic theory is about 400 years old at least. Throughout these years many researchers came to a great multitude of useful and practical conclusions about how the market system functions.

We do not think that the above thesis of independent economic theory not having right to exist is convincing either; economic decisions in any case include value orientations, and, in many cases, political aspects as well. Undoubtedly, the

[7]In the opinion of V. Polterovich, the subject matter of the general social analysis is the functioning and development of public institutions overall. The studies based on this scenario must rely on the unified database, and the common analytical tools must include statistical data processing methods (econometrics) and the game theory as an abstract discipline that explains formation of the norms of behavior (Polterovich, V. Emergence of the General Social Analysis. In: "Great Economist of the Present Day: An Encyclopedia" Moscow, 2013, 184).

human society is complex, with all its political, economic, social and cultural dimensions. But the subject of pure economic theory lies not in the isolated societal sphere but the society as a whole, albeit viewed under a special angle.

But, while the economic theory provides an economic view on the society, it cannot be fully detached from the events that are studied within other disciplines. These events, after all, had never been taken out of the subject area of economic theory. We can easily find that without referencing the system of expectations, and, consequently, the values of human beings, we cannot build the model of the consumer's choice. The main entity within the political system – the state – is not at all alien to economic theory. Neither the functioning of market economy (consider the formal factor in economic games), nor the fight against market failures, nor that the interests of separate members of the society do not match the interests of "the economic man" would be possible without the state. The attention that we pay in the theory of economics to the problem of public choice (including the part that pertains to just distribution of income), confirms convincingly that the theory in question also includes the social dimension.

This is why to get the current economic theory out of crisis, I am sure we should choose not to get rid of the deductive method based on a limited number of axioms but to overcome its institutional static character, and to define precisely its role in the system of economic, and speaking more broadly, social, sciences.

The methodological approach that combines genetical and functional analysis will help us find logic in the development of forms of economic life. It is a well-known fact that it was generally defined by Karl Marx, whose bicentennial we celebrate this year. In modern terms, the essence of this approach is the transition from a set of individual models that describe the superficial functional dependencies between the elements of the economic system, to a system of models that follow from each other and characterize the object under study at different levels of abstraction. It appears that this methodology allows us to arrive in a non-contradictory way it allows you not only to arrive at the same results as in the "neoclassical" model in terms of functional dependencies that appear on the sur-

face of market economies, but also to reveal the main forces behind the institutional dynamics that determine the formation of, and possible directions for, development of this economic system [8].

But here's something that is important to consider: Pure deductive economic theory can help the "intellectual model" of the economic system at best. I have said above that the economic theory cannot fully ignore values and political factors of public development. But these factors do not serve as subjects for special, deep study within the economic theory. They are introduced in it as axioms, in a simplified manner that can be conveniently operationalized. This is, of course, one of the reasons[9]why the economic theory cannot determine the precise values of parameters that characterize concrete economic systems in concrete circumstances. This is why it should be considered not as a precise reflection of an object under study but as its model only. In this lies the fundamental difference between the laws of economics and the laws of, say, mechanics. So the goal of the theory here in considerably more narrow: we need to define the coordination and interaction between the main elements of the economic system, and determine the nature and direction of institutional transformation.

Under no circumstances will the "pure economic theory" lead directly to practical recommendations that can help solve concrete problems that separate states, their integrative unions, or the global economy overall, face. The attempt to create a precise virtual copy of modern-day economy is doomed to fail, for two reasons at once.

The first reason is of purely technical character: all the efforts related to collection and processing of the information necessary for that purpose will extend beyond all imaginable limits. The second one is of principal significance, and has

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[8] The attempt to implement this approach was undertaken by me in: Nekipelov, A. Emerence and Functioning of Economic Institutions. From Robinsonade to Market Economy Based on Individual Production. Moscow: Economist, 2006; Nekipelov, A. General Theory of Market Economy. Moscow: Magister, 2017,

[9]Precisely, "one of." We cannot directly define, for instance, individual functions of utility, and the very number of variables in concrete economies is so great that it is impossible to gather all the data, let alone analyze such data.

to do with human nature. This issue is that some of the parameters that reflect peculiar features of human behavior are in fact changeable, often unpredictably so. For instance, you cannot precisely define the character of economic expectations of members of the society, and therefore, their reactions to changing economic variables. The notion of what is optimal for the society is also ridden with ambiguity, and therefore it is impossible to predict the concrete mechanisms of group decision-making that members of the society can use to achieve whatever goals they place before themselves.

As a consequence, a certain "zone of uncertainty" is created between the model described by the pure economic theory and the real economics.[10] This is what distinguishes economic theory as a social science from other natural sciences, such as, for instance, theoretical mechanics,

Therefore, there is no alternative to using simpler models based on aggregate, and, to a certain extent, heterogeneous information when it come to adopting practical solutions. It is also fair to say that the instruments being used to this purpose cannot not have an eclectic character. It is comprised of classical macroeconomic models, econometric developments and sociological studies. The search for optimal solutions, undoubtedly, requires considering cultural and socio-psychological peculiarities of the society, the character of political mechanisms active in this framework. In other words, as we analyze concrete situations we cannot avoid using the tools of interdisciplinary analysis. Now, when it comes to the economic theory, it will play the part of a certain guiding light that helps a researcher organize his or her efforts accordingly.

[10] See Nekipelov, A. Novy pragmatyzm Grzegorza W. Kolodki – alternatiwa czy uzupelnienie teorii ekonomii? B: Ekonomia przyszlosci. Wokol nowego pragmatizmu Grzegorza Kolodko. Red. Naukowa Maciej Baltowsky. PWN, Warszawa, 2016